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WASHINGTON DIVIDED ON PROPOSALS FOR AID TO CHINA

AMERICAN policy toward China is now passing through a period of critical re-examination. The resulting decisions, whether for good or ill, may have as profound an effect on the future of the United States as any steps taken by this country in Europe. So far there have been no new public moves by Washington in China, for while some government circles favor more extensive military and economic support to Nanking in its civil war against the Chinese Communists, others are hesitant on important aspects of an aid program. Although emphasis on peace and democracy in China, which characterized statements by President Truman in December 1945 and by General Marshall in January 1947, has not entirely disappeared, there seems to be less stress on these themes than at any time since the defeat of Japan. The principal long-range factor in Washington's attitude toward China is the general tension between the United States and the Soviet Union in world affairs. But this is somewhat counterbalanced by the difficulty of acting effectively in China, in view of the decline of Nanking's power.

DILEMMA OVER CHINA. Lt. Gen. Albert C. Wedemeyer was sent to China last July by Secretary Marshall on a fact-finding mission. The purpose of his survey presumably was to draw up a program of conditional, American-supervised aid. This remains Washington's broad objective, but the corruption, inefficiency and general deterioration observed by the Wedemeyer mission apparently brought home the fact that aid to Nanking is not an easy matter. The many obstacles impeding a policy of assistance were reflected in General Wedemeyer's interim statement of August 24 on his departure from China.* Washington's desire to help Nanking to hold or to de-

feat the Communists came up against the hard fact that the government of Generalissimo Chiang Kai-shek is a highly ineffective instrument. Under the circumstances aid to Chiang was likely to be a matter of throwing American money and arms down the drain. On the other hand, Washington was deeply concerned not to see Chiang defeated by the Chinese Communists.

The wide range of official reactions to this dilemma is one of the chief factors explaining the delay in implementing General Wedemeyer's final report, which was submitted to the Secretary of State five weeks ago on September 18. The extent of any new American intervention with dollars and arms in China and the conditions that might be imposed in

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*See "Wedemeyer's Statement Jolts Chinese Rightists," *Foreign Policy Bulletin*, September 5, 1947.

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this connection on the Nanking regime are presumably major issues. The choice of strategic goals by the United States is also of supreme importance, i.e., reaching a decision about the parts of China the Central government might be expected to retain.

No less perplexing to policy-makers is the method to be followed in giving economic aid. The Export-Import Bank has the power to extend large-scale assistance. But the Bank has so far adhered very carefully to the businesslike principle of not making economically unsound loans. On the other hand, it is realized that an appeal to the next session of Congress for a special China loan might not result in either swift or favorable action at a time when the problems of European aid under the Marshall plan are overshadowing all other issues of foreign policy.

CAMPAIGN FOR AID TO NANKING. Meanwhile, a campaign for all-out military and economic aid to Nanking has been launched by Henry Luce, the well-known publisher, and also by the Scripps-Howard press. The October 13 issue of *Life*, a Luce publication, contained "A Report on China to the American People" by William C. Bullitt, former American Ambassador to Russia and France. Mr. Bullitt's statement, written after a trip to China which involved close consultation with Nanking officials, has been welcomed by Nanking and is clearly intended to influence Washington in favor of sweeping action in China. On October 15 Representative Walter H. Judd, Republican, of Minnesota, who has long shared Mr. Luce's views on China policy, announced that as a member of the House Foreign Affairs Committee he was leaving for China on a one-man fact-finding mission.

The burden of the *Life* article is that by spending \$1,350,000,000 the United States can bring about the ejection of "every armed Communist from the soil of China" and keep China out of "the hands of Stalin." In addition, Mr. Bullitt would give Nanking virtually unlimited quantities of military equipment.

UNCONTROLLED PRICES JEOPARDIZE EUROPEAN AID PROGRAM

President Truman, at his press conference on October 16, gave no encouragement to those who are convinced that the economic situation in Western Europe is so critical that a special session of Congress should be called at once to enact an emergency aid program. Mr. Truman apparently continues to be guided by the advice of the Administration's political strategists rather than of its economic experts.

REPUBLICANS DISCOUNT EMERGENCY. Given the fact, however, that the Democrats are the minority party in Congress, the leadership which the Executive can exercise is in the final analysis permissive only. Thus while several prominent Republi-

ment at a nominal bookkeeping cost, under the President's special powers to dispose of Army stocks declared no longer essential for Army use. Special emphasis is also placed on swift action in Manchuria. Although the contents of General Wedemeyer's report remain a well-kept official secret, the realism of his August 24 statement and other public evidence suggest that the Bullitt program goes considerably beyond his views on the scope, timing and strategic conception of an aid program, while demanding less stringent conditions of Nanking. Some aspects of the Bullitt recommendations may also be part of the Wedemeyer program, but for the time being, at least, the difference in approach to the issue is of considerable significance. It appears likely, for example, that the tendency within the Administration is to regard Manchuria as lost, while Bullitt asks the fullest aid to Nanking to retake this area, which is already more than 80 per cent under the control of the Chinese Communists.

NEED FOR CAREFUL THOUGHT. The United States has already spent several billion dollars on intervention in China since the end of the war, and current developments offer no reason to suppose that an additional one and a third billion, important though it would be, could enable Chiang Kai-shek to dispose of the Communists. The Bullitt program would have the effect of involving the United States far more deeply in the Chinese civil war, and would probably make the spending of further billions necessary at a later date. It would also create the possibility of turning China into a second Spain. It is clear that the American people need to think long and hard about future policy in China, acting or refraining from action on the basis of understanding and cool judgment, not under the influence of fear. If action is finally decided upon, it should be conditioned upon the achievement of peace and unity, without which all hopes for reconstruction and progress in China appear illusory.

LAWRENCE K. ROSINGER

(The first in a series of articles on American policy toward China.)

CANADA'S POSITION ON EUROPEAN AID

can have agreed with Secretary of State Marshall's contention that Europe faces a winter production crisis for lack of imported food and fuel, and of dollars to finance these imports, they have not been receptive to the view that the emergency is such that Congress should meet now. During his recent tour on the West coast, Senator Robert A. Taft, Republican, of Ohio, remarked that the American people should voluntarily eat less to prevent starvation abroad. Neither he nor other members of his party have evinced any enthusiasm for a renewal of rationing and price controls to meet the current crisis, the extent of which they are inclined to minimize.

It is against this background of demands for "business as usual" that President Truman's decision to launch his current voluntary food-conservation program must be judged. When his Cabinet Committee on World Food Programs reported on September 22 that, although the need for food abroad is greater this year than last, the United States can safely export only 470 million bushels of grain in 1947-48 as compared with 575 million in 1946-47, Mr. Truman sought to obtain an additional 100 million bushels by an appeal to the American people to restrict their consumption by that amount as an alternative to reduced exports or the imposition of governmental controls. "To ship more abroad without adjustments in domestic demand," he noted, "would aggravate our own price situation." On October 16 Mr. Truman said at his press conference that his food-conservation plan was an attempt to do under free enterprise something that police states could accomplish only by the use of compulsion. He labeled all forms of price regulation and rationing as essentially police-state methods; at the same time, he noted that the country was now experiencing all the evils which the opponents of OPA had predicted would not occur.

RISK OF ANOTHER BOOM AND BUST. This country's experience at the end of World War I indicates that reliance on self-denial by the public instead of a controlled transition to a stable economy is at best a perilous undertaking. In 1919, when American aid to Europe was much less than it is now, government intervention was discontinued in favor of a free market economy; thereafter, the readjustment of production and consumption was marked by a violent up and down movement of prices—a boom and bust cycle. To avoid repetition of this process, the American economic system today must possess a greater degree of adaptability than it did then, for the burden it must bear now is much larger. The ending of price controls last summer has been followed by a well-developed wage-price spiral; moreover, whereas it was thought last year that Europe would make a steady and rapid recovery, all evidence now points to an impending breakdown of production abroad unless more aid is quickly provided. In the report on "National Resources and Foreign Aid," which Secretary of the Interior J. A. Krug submitted to the President on October 18, it is concluded that the United States has the capacity to meet the needs of other nations. But, as Mr. Truman pointed out, while this finding is encouraging, "other

vitally important factors must be weighed before we can determine the extent to which these resources can be shared." One such consideration is the impact of foreign aid on a distorted wage-price pattern.

Given the backlog of domestic buying power created during the war, a serious inflationary threat has been unavoidable. Once an upward trend of prices starts, producers tend to withhold output in the expectation of higher returns; the prospect of profit in turn engenders speculation, all of which adds to the degree of inflation. At the same time, the low volume of production abroad has resulted in a sustained, high-level demand for imports from the United States—not only by Europe but also by other areas which formerly were important market outlets for European producers, e.g., Latin America and the Far East. Until such time, therefore, as the industrial centers of the old world have been fully restored, the foreign demand for the products of our farms and factories will remain inordinately large. The exports of this country, however, are limited by the supply of dollar exchange, which is dwindling rapidly without a concomitant growth of production in other countries.

The Marshall proposal that the United States underwrite a concerted effort by Europe to achieve a viable economy will require further large exports, and this apart from the needs of the world's underdeveloped areas, notably in Asia, which Europe formerly met to a considerable extent. The demand for American goods and services thus remains at an unprecedented level, and a decision must be made as to the amount of aid we can give without unduly straining our economy. However, if in finding a solution the guiding consideration is the amount of assistance that can be provided without recourse to what Mr. Truman called the methods of a police state, the risk will exist that the estimate so determined may fall short of the minimum aid Europe must have to avoid a collapse. In 1919 there was no simple, automatic return to normalcy, and such a development is even less likely in this post-war period. The threat to the American way of life in 1947 lies not so much in what we may do to regulate the domestic economy as in the possibility that our response to the desperate needs of Western Europe may prove inadequate. What we preserve at home, we may lose abroad.

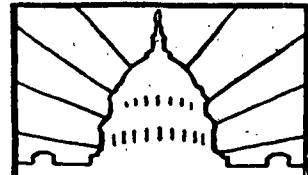
HAROLD H. HUTCHESON

(The last in a series of three articles on the Paris conference.)

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Washington News Letter



AUSTRIAN TREATY MAY BE KEY ISSUE AT LONDON COUNCIL MEETING

Recent suggestions that the United States, Britain, and France ignore the Soviet Union and conclude a separate treaty of peace with Germany neglect the closely related problem of Austria. It is improbable that the Soviet Union would conclude an Austrian peace treaty with the United States if Russian leaders thought that this country intended subsequently to abandon negotiation of a German treaty. Yet separate peace treaties, or the long-continuing absence of any treaty, for Austria would bring that little republic to the brink of economic destruction, because it would permanently divide the country's few square miles into a Western Austria, and a Russian Austria including Vienna. Moreover, the absence of an Austrian treaty enables the Soviet Union to maintain troops for "communication" purposes in Rumania and Hungary, under the terms of the peace treaties with those two former German satellites. The United States, then, must keep Austria prominently in mind as it prepares for the Council of Foreign Ministers which is to reconvene in London on November 25. The Council will have both the German and Austrian treaties on its agenda.

THREEFOLD DISAGREEMENT. The outlook for Russian-American agreement about Austria, as well as Germany, is disappointingly uncertain. In advance of the Council meeting, the Western powers can take comfort only in the comment Premier Stalin made on October 17 to left-wing Laborite members of the British Parliament who visited him at Sochi where he is reported to have said: "Cooperation between nations is necessary." Since the Foreign Ministers last met at Moscow in March and April, the United States and Russia alike have held fast to their conflicting positions on the three points at issue in the Austrian draft treaty—territorial changes (article 5), reparations (article 34), and definition of German assets (article 35). The Austrian Treaty Commission, established by the Moscow meeting, sat in Vienna from May 12 to October 11 without resolving these three disputed questions. Disillusion and pessimism darken the hopes of the Austrian government, which is friendly to the West. Austrian Foreign Minister Karl Gruber predicted on October 5 that the Foreign Ministers would get no farther in London than they did in Moscow.

Throughout the negotiations to date, the United States has defended the territorial integrity and the economic resources of Austria, in contrast to Russia, which has taken the view that Austria should be punished for its cooperation with Nazi Germany.

The two powers place different interpretations on the 1943 Moscow Declaration. In that declaration the United States, Britain, and Russia guaranteed the restoration of Austria as an independent state and, at the same time, reproved the Austrians for such aid as they had willingly given the Nazis in the conduct of the war. This country has concentrated its attention on the former clause, Russia on the latter.

The disagreement over the treaty's details underlines this more fundamental difference: The Soviet Union demands that Austria surrender Southern Carinthia and Southern Styria to Yugoslavia, and it supports the Yugoslav demand for \$150,000,000 in reparations. The United States opposes both items. As for the third point in controversy, the Soviet Union identifies as German assets all property Nazis possessed in Austria at the conclusion of World War II, whereas the United States would define as German assets only those properties not seized by the Nazis for which payment was made by Germans. Since the Potsdam conference of July 1945 assigned "German assets" in Austria to Russia, a substantial stake is involved in this controversy over definition. As the Potsdam conference, however, failed to define "German assets," Russia perhaps has a good legal case for its point of view, although the Western powers at that time indicated their opposition toward removal of Austrian assets, and agreed not to take reparations from Austria for themselves.

AMERICAN STRENGTH IN NEGOTIATION. Britain may propose to the Council of Foreign Ministers that Austria be made the first order of business. This step would disentangle the Austrian question from that of Germany. Nevertheless, it would confront the United States with the problem of achieving two not altogether compatible ends: the writing of an Austrian treaty agreeable to Russia that yet keeps Carinthia and Styria intact, ignores reparations, and perhaps sets forth the American definition of German assets. The principal American source of strength in negotiation is unflinching adherence to a position in the face of rebuff and disappointment, but much the same can be said for the Soviet Union. One American trump card is the hostility a majority of Austrians apparently feel toward communism. The anti-Communist Peoples' and Socialist parties won almost all the seats in the *Nationalrat*—the lower house of Parliament—in the elections of November 25, 1945, and no change in sentiment is indicated by events since that time.

BLAIR BOLLES